STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
	)	
Rate MAP-P Modernization Action Plan - Pricing Annual Update Filing	))	**Docket No. 13-0301**

CORRECTED DIRECT TESTIMONY OF MICHAEL L. BROSCH ON BEHALF OF THE PEOPLE OF THE STATE OF ILLINOIS

AG Exhibit 1.0C

CONFIDENTIAL DESIGNATION REMOVED BY AGREEMENT

JULY 3, 2013
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ILLINOIS COMMERCE COMMISSION
DOCKET NO. 13-0301
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EXHIBIT LIST

I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148-1934.

Q. By whom are you employed and in what capacity?

A. I am a principal in the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate and regulation work. The firm's business and my responsibilities are related to regulatory projects for utility regulation clients. These services include rate case reviews, cost of service analyses, jurisdictional and class cost allocations, financial studies, rate design analyses, utility reorganization analyses and focused investigations related to utility operations and ratemaking issues.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the People of the State of Illinois represented by the Attorney General, ("Attorney General" or "AG").

Q. Will you summarize your educational background and professional experience in the field of utility regulation?

A. Yes. AG Exhibit No. 1.1 is a summary of my education and professional qualifications. I have testified before utility regulatory agencies in Arizona, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory proceedings involving electric, gas, telephone, water, sewer, transit, and steam utilities. A listing of my previous testimonies in utility regulatory proceedings is set forth in AG Exhibit No. 1.2. As noted in this listing, I have testified in several major Illinois proceedings before the Illinois Commerce Commission ("the Commission" or "the ICC"), including multiple cases involving Peoples Gas Light & Coke Company, North Shore Gas Company, Commonwealth Edison Company and the Ameren Illinois Utilities, including the initial and second round of formula rate case proceedings for ComEd and Ameren Illinois, Docket Nos. 11-0721, 12-0321, 12-0001 and 12-0293.

Q. What is the purpose of your testimony in this docket?

A. My testimony is responsive to the formula rate update calculations and revenue requirement calculations of Ameren Illinois Company ("Ameren", "AIC" or "the Company") that are sponsored by various AIC witnesses and are summarized in Ameren Exhibit 1.3R. My testimony addresses certain of the ratemaking concepts and procedures that are being recommended by AIC as well as specific rate case adjustments that are needed upon continuation of annual formula ratemaking.

Q. Please summarize the recommendations that are set forth in your testimony.

A. My testimony addresses several issues impacting the determination of Ameren's prospective revenue requirement and the method used to apply interest in the reconciliation of such revenue requirements using 2012 recorded and adjusted formula rate input amounts.

I propose several adjustments to test year operating revenues and expenses in my testimony. I recommend inclusion of certain miscellaneous revenues in determining the Company's electric delivery service revenue requirement. I also sponsor an expense adjustment to eliminate certain public relations costs that are not reasonable and necessary for the provision of electric delivery service. I also recommend reducing the amount of CWIP allowed in rate base to the extent AIC has reduced cash CWIP investment because project costs were financed by Accounts Payable.

With regard to Cash Working Capital ("CWC"), I revise Ameren's proposed lead/lag calculations that apply a revenue lag to pass-through or add-on taxes and I correct Ameren's treatment of income tax expenses in calculating CWC, because the Company is paying no income taxes due to its Net Operating Loss tax position.

My testimony also addresses how interest should be applied to the over-recoveries of AIC's revenue requirement through reconciliation calculations on a net of income tax basis.

Q. What information have you relied upon in formulating your recommendations?

A. I have relied upon AIC's pre-filed testimony and exhibits in this Docket, as well as the Company's responses to data requests submitted by Staff and the AG. I have also referenced a copy of the Senate Bill 9 modifications to Section 16-108.5 of the Public Utilities Act, which was provided to me by AG counsel. I also rely upon my prior experience with the regulation of public utilities over the past 35 years, including significant experience in Illinois and with alternative forms of regulation for telephone and energy utilities.

Q. Have you prepared any accounting schedules to summarize the adjustments being proposed in your testimony?

A. Yes. AG Exhibit 1.3 is a four-page summary of the revenue requirement revisions being proposed in my testimony. It should be noted that Mr. Effron and I have not, with available time and resources, been able to conduct a complete review of all aspects of the Company's filing. As a result, the limited adjustments we are proposing should be viewed as cumulative with the work and recommendations of Commission Staff and other parties' witnesses.

II. MISCELLANEOUS OPERATING REVENUE.

Q. What is Miscellaneous Operating Revenue and how is it treated in determining the Company's revenue requirement?

A. Miscellaneous Operating Revenue is earned by AIC when utility customers or other third parties are charged for services other than the retail purchase or delivery of energy. Ameren WPC-23b provides a three-page descriptive listing of these types of revenue, indicating which of the total amounts recorded within the "Per Books" column in 2012 have been treated by AIC as "Electric Distribution Amount" values that are recognized in determining the delivery service revenue requirement.

The jurisdictional amount of total Miscellaneous Operating Revenue is used to reduce AIC's revenue requirement because such revenues are earned in connection with providing utility services or as a result of being in the utility business, and therefore contribute to the recovery of the Company's overall revenue requirement. For example, Line 1 of WPC-23b shows that Forfeited Discounts (also known as Late Payment Charges) in the amount of $11.085 million are treated as 100 percent Electric Distribution related because such amounts are charged to customers when remittances are not timely, which revenue then serves to offset some of the Cash Working Capital ("CWC") costs incurred by the Company in financing Accounts Receivable from customers. In total, $39.1 million of Miscellaneous Operating Revenues have been treated as a revenue credit by Ameren. This amount appears at line 99 of WPC-23b and is carried forward to Ameren Exhibit 1.3R, Sch. FR A-1, line 21 and Sch. FR A-1-REC line 21, where these revenues are used to directly reduce the prospective and reconciliation revenue requirements, respectively.

Q. Has AIC properly treated all of the line item categories of Miscellaneous Operating Revenues that are listed on WPC-23b?

A. No. I am proposing several adjustments that are set forth at AG Exhibit 1.3, page 1, to correct the jurisdictional attribution of certain elements of 2012 Miscellaneous Operating Revenues that are improperly treated in the Company's filing.

Q. Please explain the adjustment set forth at lines 1 through 3 of AG Exhibit 1.3, page 1.

A. This adjustment revises the Company's treatment of revenues at line 19 of WPC-23b that are captioned "Other Electric Revenue-ARES." None of this $1,285,000 amount is treated as “Allocated to Distribution” in the Company’s filing. However, according to the Company’s response to data request AG 2.06(a), “This account primarily includes payments from entities that are vacating frequencies under Microwave Relocation Contacts.[sic]” Additional clarifying information was provided in response to data request AG 5.03 indicating that, when AIC was using the microwave frequencies that are now being vacated, the frequencies were used for “…electric transmission data for SCADA. These frequencies are no longer being used and have been sold to various cell phone companies. The corrected WPC-23b caption for account 456-001 would be, “Other Electric Revenue.”

When asked in AG 5.03(b) if these revenues have been credited to the FERC ratemaking jurisdiction for ratemaking purposes, given the Company’s proposed “transmission” classification of these transactions, the Company stated, “No, these revenues are for 2012. The Company has transitioned from use of an historical test year, with the most recent historical test year based on 2011 data, to use of a future test year, with the most recent submission to FERC based on a future test year of 2013, subject to true up of actual data. AIC intends to explore whether the appropriate revenues can be credited to ratepayers under the formula in the Company’s next FERC jurisdictional filing.” When asked in AG 5.03(d) to identify and describe each of the assets that are being referenced to confirm that they are, in fact, 100 percent transmission-related, the Company stated, “AIC has not identified the transmission assets that were previously used to transmit transmission data for

SCADA. Such identification is not practical given that such revenues are not directly associated with one or more assets."

These responses by AIC are revealing in two respects. First, the Company has not been able to clearly show that any of the revenues it received from agreeing to vacate certain microwave frequencies have been or will be recognized in the FERC jurisdiction to reduce the Company's transmission rates or revenues. Without FERC attribution of the revenues, and with AIC's proposal to treat none of these revenues as distribution related, they may ultimately be retained as a windfall for Ameren shareholders. Second, the Company's apparent inability to identify any specific FERC-regulated transmission assets, "…that were previously used to transmit transmission data" in connection with these changes" raises a question regarding whether some of the SCADA circuits being vacated were in fact related to AIC's distribution (rather than transmission) SCADA systems. Absent clarification of these details, the more appropriate treatment of the microwave circuit decommissioning payments received from the cell phone companies is a general allocation of such revenues between the Distribution and Transmission functions, as shown at lines 2 and 3 of AG Exhibit 1.3, page 1.

Q. What is the adjustment that appears at lines 4 through 6 of AG Exhibit 1.3, page 1?

A. The Company's WPC-23b reflects, at lines 20 and 21, revenue received by AIC for providing "Mutual Assistance" to other utilities to assist with storm restoration work. These revenues are allocated 92.06% to Electric Distribution services based on the Company's T&D Allocation factor. However, a related revenue amount on line 22 for "Overheads Billed – Other Parties" is not included in column (E) and is therefore effectively treated as entirely non-jurisdictional. The response to data request AG 2.06(c) states that, "This account 456-005 has three lines associated with miscellaneous operating revenues. The majority of these dollars are associated with mutual aid storm work for other utilities. This function has been identified separately and allocated 100% to the distribution function." Clarification was requested regarding this explanation in data request AG 5.05 and the Company's response indicated that, "Upon further review and the analysis of the transactions involved, there are a number of transactions in 2012 that were either directly or indirectly related to the electric distribution business…..[a]ccordingly, the Company recommends that an electric T&D labor allocator be used to assign a portion of these revenues to electric distribution, in lieu of a labor intensive detailed analysis of each transaction or group of transactions within this account."

The proposed AG adjustment adopts the revision that the Company now concedes is necessary with regard to the Mutual Assistance overhead revenues. AIC's labor and non-labor costs that are incurred in providing mutual assistance to other utilities to help them recover from storms are largely included within the delivery service revenue requirement. Therefore, all of the revenues collected from other utilities in connection with this work must be reasonably allocated between the transmission and distribution functions and applied against the Company's asserted revenue requirement.

Q. What is the third adjustment to Miscellaneous Operating Revenues that appears at lines 7 through 9 of AG Exhibit 1.3, page 1?

The Miscellaneous Operating Revenues appearing at line 25 of the Company's WPC-23b are captioned "Miscellaneous Billings" in the amount $359,000. This amount has also been completely excluded by AIC from the credits attributed to Electric Distribution Service in column (E). The Company's response to AG 2.06(b) states, "This account includes revenues from non-service items, property management, salvage and scrap." Clarification was requested regarding this explanation in data request AG 5.04 and the Company's response stated, "Upon further review and analysis of the transactions involved, there are a number of transactions in 2012 that were either directly or indirectly related to the electric distribution business, while other transactions are related to either electric transmission or gas. Accordingly, the Company recommends that a general plant allocator be used to assign a portion of these revenues to electric distribution, in lieu of a labor intensive detailed analysis of each transaction or group of transactions within this account." These amounts should be allocated and then treated as a credit to the delivery service revenue requirement to offset the Company's asserted overall cost of service.

Q. What have you included in AG Exhibit 1.4 in connection with your Miscellaneous Operating Revenue adjustments?

A. AG Exhibit 1.4 contains copies of AIC responses to data requests AG 2.06, AG 5.03, AG 5.04 and AG 5.05 that are referenced in this section of my testimony.

III. RECONCILIATION INTEREST CHARGES.

Q. Can you explain the formula ratemaking reconciliation balance and how it is calculated?

A. Under the formula rate law, the Commission must compare the calculation of the prior calendar year revenue requirement, using actual recorded input data as reported on the Company's FERC Form 1, to the corresponding previously approved revenue requirement for that same period. The Company is then required to either refund or surcharge this difference in revenue requirement to ratepayers, plus interest.

Q. What interest rate is to be applied to the reconciliation balance, according to the laws governing the performance-based formula rate process?

A. I am advised by AG counsel that Senate Bill 9 (Public Act 098-0015) now requires that, "Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year."[1] This represents a change from the short term debt-only interest rate that was approved for application to reconciliation balances in the Commission's rate orders in Docket Nos. 12-0001 and 12-0293.[2]

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[1] Public Act 098-0015; 220 ILCS 5/16-108.5(d)(1).

[2] See Final Order dated September 19, 2012 in Docket No. 12-0001 at page 188 and Final Order dated December 5, 2012 in Docket No. 12-0293 at page 114.

Q. What interest rate has AIC proposed for application to its calculated reconciliation balance?

A. Ameren proposes, in its formula rate calculations, to apply a "Monthly Interest Rate" of 0.6803% to the revenue requirement, "Variance With Collar" amount calculated on Ameren Ex. 1.3R at Sch. FR A-4, lines 3 and 4. This percentage represents 1/12 of the Company's calculated Weighted Average Cost of Capital that is calculated at Sch. FR D-1 and appears at line 29 in column D. Thus, AIC is proposing that the revenue requirement difference arising from the reconciliation process in future years, whether positive or negative, be allowed to earn the Company's calculated overall cost of capital, as required in Senate Bill 9.

Q. Does Ameren's use of its "Wtd Avg Cost of Capital" at line 29 of Sch. FR D-1 represent, "interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year"?

A. Yes.

Q. Aside from the interest rate issue, where you agree with AIC, is there another substantive issue where you disagree with the Company's calculations of the reconciliation amount to be returned to customers?

A. Yes. The Commission should also consider whether the reconciliation balance, to which the interest rate is applied, must be adjusted to recognize the Company's actual incremental invested capital in financing such balances. The incremental actual invested capital associated with reconciliation over- or under-recoveries is impacted by income tax that is applicable to cash revenues whenever they are collected by the utility. If the recovery of reconciliation surcharges is delayed, the payment of related income taxes is also delayed. In Ameren's case, when revenues are over-recovered and reconciliation balances are to be returned to ratepayers, the Company incurs incremental income tax expenses associated with such early over-recovery of revenues. These income tax expenses reduce the incremental capital AIC actually realized from such temporarily excessive revenues and the amount of interest properly applied to the reconciliation balance should be reduced accordingly. In either direction, the Commission should reduce the reconciliation balance that earns interest so that interest applies only to the net-of-tax incremental capital investment driven by such over or under-recovery of revenues.

Q. Was this concern regarding the reconciliation balance that is allowed to earn interest previously presented and considered by the Commission?

A. Yes. However, the Commission responded with concerns about the completeness of the record, and did not make a definitive ruling. In ComEd Docket No. 11-0721, the need for this further adjustment to the reconciliation balance for deferred income tax effects was presented, but the Commission found that, "ComEd contends that this recommendation does not provide ComEd with cash. AG/AARP provide little information establishing this procedure is within generally accepted accounting procedures, or that it would be of benefit to ComEd or to ratepayers."[3] With respect to AIC Docket Nos. 12-0001 and 12-0293, while the issue was presented in my

[3] Docket No. 11-0721 Final Order, page 167.

testimonies, there was no discussion of the net of tax concern within the Commission's Final Orders.

Q. Why are there deferred income tax effects directly attributable to the reconciliation balance?

A. The reconciliation balance is a regulatory asset or liability representing the utility's right to receive or obligation to return revenues in the future. Changes in the regulatory asset/liability balance are not subject to <u>current</u> income taxes, but the utility must recognize <u>deferred</u> income tax balances associated with such changes because of the known impact upon future taxable income when reconciliation balances are realized in cash utility rate levels. Application of interest to <u>only</u> the net of income tax balance associated with such deferrals would be consistent with the economic reality that income tax deferrals are realized whenever a utility experiences a delay in the recovery of taxable revenues that would serve to reduce the overall interest burden upon ratepayers by about 40 percent. At the present time, AIC has over-recovered its 2012 revenue requirement that is subject to reconciliation, so the application of interest to the net of deferred tax reconciliation balance serves to properly reduce the amounts refundable to customers.

Q. Please explain the Generally Accepted Accounting Principles ("GAAP") that require the recognition of deferred income taxes?

A. Full and complete accounting for income tax expenses must recognize that filing tax returns and paying income taxes will impact expenses payable in more than one accounting period. The relevant GAAP requirements are stated within Accounting

Standards Codification 740 (“ASC 740”). Under ASC 740, there are two primary objectives related to accounting for income taxes:

a. To recognize the amount of taxes payable or refundable for the current year, and

b. To recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns.

Recorded ADIT amounts arise from part (b) of this standard, where recognition is given on the books to the future tax consequences of transactions that are treated differently in financial statements than on tax returns.

Q. Does GAAP require the recording of deferred income taxes for the reconciliation revenues that are accrued as a regulatory asset until they are returned or surcharged to ratepayers?

A. Yes. Deferred tax expense (or benefit) is the change during the year in an entity’s deferred tax liabilities and assets.[4] GAAP requires that deferred taxes be determined using the following procedures:

a. Identify the types and amounts of existing temporary differences and the nature and amount of each type of operating loss and tax credit carryforward period.

b. Measure the total deferred tax liability for taxable temporary differences using the applicable tax rate.

c. Measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rates.

4 ASC 740-10-30-4.

d. Measure deferred tax assets for each type of tax credit carryforward.

e. Reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. [5]

The delayed collection of reconciliation revenues under formula ratemaking creates a "taxable temporary difference" under step (b) in this listing. This occurs because reconciliation revenues are recorded as per book revenues in the year earned (either as excess or deficiency revenues) while such revenues will not become income taxable until the year they are approved by the Commission and charged or credited to ratepayers.

Q. Why do we care about ADIT balances in determining utility rates?

A Utilities are capital intensive businesses that invest continuously in newly constructed or acquired assets. These large annual capital investments generate persistently large income tax deductions for bonus/accelerated depreciation and other tax deductions and credits that must be normalized by recording ADIT under the aforementioned GAAP rules. The requirement for normalization accounting denies ratepayers any immediate flow-through benefit from such tax deduction because deferred income tax expense accruals are included as part of total income tax expense in the revenue requirement. From a ratemaking perspective, a utility's persistently large credit ADIT balance caused by the deferred payment of recorded tax expenses represents a significant source of capital to the utility. ADIT balances

[5] ASC 740-10-30-5

represent a form of zero-cost capital to the utility created by the income tax savings permitted under tax laws and regulations that are not immediately "flowed through" to ratepayers. Regulators typically reduce rate base by the ADIT balances, so as to properly quantify the net amount of investor-supplied capital to support rate base assets. However, because the deferred taxes associated with formula rate reconciliation balances are more dynamic and the template used to calculate reconciliation balances is formulistic, a much more precise accounting for reconciliation interest can be achieved by simply restating the balance to which the interest rate is applied to a net-of-tax equivalent. This more precise accounting assures that interest on the reconciliation balance is only applied to net investor-supplied capital arising from the delayed recovery or return of reconciliation revenues.

Q. Is there a valid concern that deferred income taxes associated with the reconciliation balance do not provide any incremental cash for the utility?

A. No. Changes in ADIT provide incremental cash flows to utilities through the change in timing of the payment of cash income taxes associated with such tax deferrals. Even when utilities are in a Net Operating Loss ("NOL") carryforward position, which is currently true for AIC, the size of the NOL in each tax year is directly impacted by changes in the reconciliation balance regulatory asset and the resulting NOL deferred tax asset is included in rate base to directly impact utility rates.[6]

Q. What changes to Ameren Ex. 1.3R, Sch. FR A-4, the formula rate spreadsheet template "Reconciliation Computation," are required in order to apply your recommendations?

A. First, the "Variance With Collar" appearing at line 3 should be reduced by related incremental deferred income taxes using the Company's composite effective "Income Tax Rate", which is derived on Sch. FR C-4, at line 4. The calculation and subtraction of related Accumulated Deferred Income Taxes could be inserted as new line 4, with the resulting "Net of Income Tax Variance" appearing on new line 5 of Sch. FR A-4. Then, the "Monthly Interest Rate" on line 4 (to be renumbered line 6) should be applied to the "Net of Income Tax Variance" on line 5.

Q. Will the computation of interest on the reconciliation balance net of income taxes benefit AIC ratepayers?

A. Not immediately. Ameren Exhibit 1.3R at Sch FR A-4 shows that the Company has a negative "Variance With Collar" amount to be returned to ratepayers. The net of tax adjustment to this variance that I propose would reduce the amounts to be refunded to customers in this proceeding. However, in future cases, whenever there are positive "Variance With Collar" amounts to be surcharged and recovered from customers, the net of tax approach that properly captures deferred tax benefits from such delayed recovery will be beneficial to ratepayers and more accurate in

[6] The Company's NOL deferred tax assets are included in rate base at Ameren Ex. 1.4R, WP 4,

accounting for all of the economic impacts caused by revenue requirement reconciliation.

IV. CASH WORKING CAPITAL ISSUES

Q. Has the Company proposed an allowance for Cash Working Capital ("CWC") that increases the rate base used to establish annual formula rates?

A. Yes. Ameren Ex. 1.3R, at App 3, is the Company's proposed calculation supporting an allowance for CWC of $12,104,000. According to Mr. Stafford's testimony, "Cash working capital is derived based on the application of revenues and expenses from this annual update filing as applied to the expense leads and revenue lags presented in the direct testimony of Mr. David Heintz (Ameren Ex. 4.0) in ICC Docket No. 12-0001, with the exception of revenue lags for add on taxes discussed below, and a correction to the Employee Benefits expense lead addressed in Docket No. 12-0001."[7] However, at line 469, Mr. Stafford admits that AIC has not applied the Commission-approved expense lead days for add on (also referred to as "pass-through") taxes in its calculation of CWC. At line 475, he states:

> Ameren Illinois is a combined electric and gas utility, bills utility customers on a combined basis, and has the same remittance schedule for add on taxes common to both electric and gas billed to its customers. To the be [sic] consistent with the Commission's ruling on analogous add on tax lead day issues in Docket No. 11-

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page 1, lines 5 through 8.

[7] Ameren Exhibit 1.0, page 13, line 259-264.

> 0282, AIC's last gas rate order, the Company has elected in this proceeding to remove the revenue lag billing and service days lead from both revenues (thus resetting the revenue lag to zero) and expenses, to derive the actual number of revenue lag and expense lead days from the date(s) the Company receives monies to the date(s) such monies are remitted to the appropriate taxing authority. Accordingly, consistent with the Order in Docket No. 11-0282 (see Appendices A-2, col. (c), lines 2, 14, and 15), the Company is conceding the revenue lag issue for add on taxes and reflecting as the expense lead the actual number days [sic] after receipt of funds to remittance, in the calculation of CWC revenue lags and expense lead. The Order in Docket No. 11-0282 at page 14 stated that the Commission will revisit this issue if the Company changes its remittance schedule. However, the Company has not changed its remittance schedule, and therefore the conclusion of the Commission in Docket Nos. 12-0001 and 12-0293 does not correctly consider the Commission's finding on the same issue in Docket No. 11-0282. In summary, revenue lag days shown on Exhibit 1.1, App 3 lines 2 and 3 are set at 0 consistent with the Order in Docket No. 11-0282, and expense leads are set at negative 4 days for energy assistance charges and negative 14 days for municipal utility taxes consistent with the Company's actual remittance schedule, and consistent with the Order in Docket No. 11-0282 which established the gas equivalent expense leads at negative 4 and negative 15 days, respectively.

Q. Should the Commission adhere to its findings regarding pass-through taxes in AIC’s last gas rate case, Docket No. 11-0282, as advocated by Mr. Stafford, rather than its more recent decisions in the formula rate cases involving AIC and ComEd?

A. No. The revenue and expense lead/lag day values approved by the Commission for Municipal Utility Taxes and Energy Assistance Charges in all its recent formula rate case orders were correctly determined, in comparison to Mr. Stafford’s alternative proposal that was adopted in AIC’s gas rate case Docket No. 11-0282:

Figure 1: Pass-through Tax Lead Day Comparisons.

	Municipal Taxes		Energy Assistance	
	Rev. Lag	Payment Lead	Rev. Lag	Payment Lead
AIC Docket 12-0001	0.00	(48.54)	0.00	(38.54)
AIC Docket 12-0293	0.00	(48.54)	0.00	(38.54)
ComEd Docket 11-0721	0.00	(44.22)	0.00	(40.69)
ComEd Docket 12-0321	0.00	(40.11)	0.00	(40.69)
Stafford Alternative	0.00	**(15.00)**	0.00	**(4.00)**

Sources: All amounts from Appendices to Final Orders except "Stafford Alternative" amounts

The last row of this table reveals how the Company's alternative proposal for these pass-through taxes is dramatically inconsistent with the most recent Commission decisions on this issue. Mr. Stafford's creative, but incorrect, alternative lead day treatment for Municipal Taxes and Energy Assistance Charges should not be approved by the Commission.

Q. Has there been any change in the remittance schedule for pass-through taxes that would invalidate the findings of the Commission in all of its recent electric formula rate case orders?

A. No. Mr. Stafford observes in his direct testimony at lines 488-491 that, "…the Company has not changed its remittance schedule, and therefore the conclusion of the Commission in Docket Nos. 12-0001 and 12-0293 does not correctly consider the Commission's finding on the same issue in Docket No. 11-0282."

Q. Has Mr. Stafford focused upon the CWC outcome in Ameren's prior gas rate case, Docket No. 11-0282 for any particular reason?

A. Yes. In that case, the Commission approved AIC's proposed alternative method of determining Ameren's CWC requirements associated with pass-through taxes.[8] However, this alternative method is flawed because it results in an improper CWC outcome, is completely inconsistent with the actual timing of cash flows associated with such taxes, and quite obviously conflicts with the more recent electric formula rate case Commission orders involving AIC and ComEd.

Q. Why is it appropriate to assign a zero revenue lag to pass-through taxes such as the Municipal Utility Tax and Energy Assistance Charges?

A. The Company acts only as a collection agent for these taxes, adding pass-through taxes to customers' bills and collecting such additional charges for later remittance to the taxing authorities. These taxes are imposed on the gross receipts that have been collected by the utility, rather than upon the value of services provided for which customer remittances have not yet been collected.

Q. Are pass-through taxes a liability of the Companies that must be paid without regard to whether taxable revenues have been collected from customers?

A. No. While I am not an attorney and am providing no legal opinion on the matter, my review of laws and regulations that provide for the collection and payment of pass-through taxes by the Company indicates that such taxes are payable based upon collected revenues. For example, the Municipal Utility Tax provided for at 65 ILCS 5/8-11-2 is a tax on "Gross Receipts" which is defined at paragraph 4(d) as,

[8] Docket No. 11-0282, Final Order, p. 14.

"…the consideration received for distributing, supplying, furnishing or selling gas for use or consumption and not for resale." The Energy Assistance Charge has specific remittance requirements stating, "By the 20th day of the month following the month in which the charges imposed by the Section were collected, each public utility, municipal utility and cooperative shall remit to the Department of Revenue all moneys received as payment of the Energy Assistance Charge..."[9] These are not taxes imposed upon the utility while it is providing service, but rather are taxes payable after the fact when money has been received because customer remittances have already been collected.

Q. Does AIC's collection and remittance of Energy Assistance Charges or Municipal Utility Taxes cause any revenues or expenses to be recorded on the Company's books?

A. No. These amounts appear as balance sheet items recorded in Account 241 – Tax Collections Payable.[10]

Q. What do you mean by your reference to Mr. Stafford's creative but incorrect alternative treatment of pass-through taxes?

A. In prior rate cases, Illinois utilities have advocated the assignment of a full revenue lag to the cash inflows for collection of pass-through taxes and then measured and utilized the actual cash payment lead days for such taxes.[11] After the Commission

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9 305 ILCS 20/13(f).

10 AIC WP 3 REV, page 4, footnotes 11 and 12.

11 See, for example, the direct testimony of Mr. David Heintz (Ameren Ex. 4.0) at pages 17-24 and Ameren Ex. 4.2 in ICC Docket No. 12-0001.

ruled that no revenue lag should be assigned to the collection of pass-through taxes, Mr. Stafford now claims to be, "…conceding the revenue lag issue for add on taxes and reflecting as the expense lead the actual number [of] days after receipt of funds to remittance, in the calculation of CWC revenue lags and expense lead."[12] Notably, Mr. Stafford's significant modifications to the Energy Assistance Charge and Municipal Utility Tax payment lead day values, compared to the lead days that were approved in Docket Nos. 12-0001 and 12-0293 for these taxes, simply claw back nearly all of the CWC value of this issue said by Mr. Stafford to now be "conceded".

Q. The Energy Assistance Charge lead day value now advocated by Mr. Stafford, at Ameren Ex. 1.3R, App 3, line 19, of 4.00 days is considerably shorter than the 38.54 lead day value approved by the Commission in Docket Nos. 12-0001 and 12-0293. What explains Mr. Stafford's newly proposed 34.54-day reduction in the lead day value for this pass-through tax?

A. The 34.54-day reduction in payment lead days represents subtraction of the billing and collection lag portions of the Company's overall revenue lag of 49.75 days.[13] The effect of Mr. Stafford's creative alteration of the payment lead is comparable to simply assigning most of a revenue lag to the cash used to pay these taxes, a procedure already determined to be inappropriate by the Commission. By subtracting a revenue billing and collection lag from the otherwise applicable pass-

[12] Ameren Ex. 1.0, lines 484-486.

through tax payment lead, Mr. Stafford claws back for the utility most of what was determined to be unreasonable in all four of the Commission's most recent formula electric rate case orders.

Q. Is the clawing back of the same revenue lag components against the Municipal Utility Tax lead days what causes Mr. Stafford's alternative lead day value to now be only 14 days in Ameren Exhibit 1.3R, App 3, line 20, rather than the 48.54 lead days that was approved for this tax in Ameren Illinois in Docket Nos. 12-0001 and 12-0293?

A. Yes. Again Mr. Stafford has reduced the Commission-approved payment lead days for this tax by the revenue billing and revenue collection lag elements, accomplishing most of the outcome associated with applying a revenue lag to this tax that the Commission found inappropriate in the referenced previous formula rate case dockets.

Q. At line 489 of his direct testimony, Mr. Stafford states, "…therefore, the conclusion of the Commission in Docket Nos. 12-0001 and 12-0293 does not correctly consider the Commission's finding on the same issue in Docket No. 11-0282." Did the Commission affirmatively approve the Company's alternative lead day calculation method for pass-through taxes in Docket No. 11-0282, based on the merits of that position?

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[13] The only portion of the Company's revenue lag value not clawed back as a reduction to the payment lead is the service period revenue lag element of one half month or 15.21 days.

A. No. The Commission expressed a different concern in Docket No. 11-0282 about the amounts that AIC may actually pay for Energy Assistance Charges ("EAC") and stated at page 14 of the Order in that docket:

> The question is whether the additional month that AIC could hold the funds should be imputed for CWC purposes. If AIC were to change its practices, it would mean that it would effectively remit no EAC charges to the State for one month. Hence, at the test year level of EAC charges, in the first year of the change, AIC would remit about $2.3 million less to the State than it would under its current practices. AIC states that this could impact the comprehensive low income energy programs administered by the Illinois Department of Commerce and Economic Opportunity with these funds. AIC requests that, in calculating the CWC requirement, the Commission recognize AIC's past method of remitting this pass-through tax and avoid any negative impacts on the State, low-income customers, and AIC. Staff, on the hand [sic], contends that ratepayers should not bear the cost of AIC's unnecessary early payment and urges the Commission to base the CWC calculation on AIC's access to these funds and not the date AIC chooses to remit them.
>
> The Commission understands Staff's position but is not inclined to adopt it. Given the circumstances surrounding the EAC, the Commission does not believe that the adjustment sought by Staff is warranted. The Commission will revisit this issue, however, if AIC alters its EAC remittance schedule.

Q. Would Ameren and ComEd be required to skip a month of payments of EAC or Municipal Utility taxes because of Commission adoption of the actual, measured payment lead days for pass-through taxes rather than Mr. Stafford's alternative reduced lead days value?

A. No. The correction of the CWC calculation would not obligate the utility to change its tax payment schedule, although it would reduce the CWC allowance by removing an erroneous factor.

Q. To your knowledge, has AIC or ComEd skipped a monthly payment of pass-through taxes because of the Commission's treatment of such taxes in Docket Nos. 11-0721, 12-0001, 12-0293 or 12-0321?

A. No.

Q. What payment lead day values has ComEd proposed for Energy Assistance Charges and Municipal Utility Tax in its pending Docket No. 13-0318 formula rate update CWC calculation?

A. ComEd Ex. 3.18, App 3 in Docket No. 13-0318 reflects that utility's lead lag study. ComEd has accepted and used the same 40.69 lead day values for Energy Assistance Charges that was approved by the Commission in the prior to formula rate calculations. ComEd's Municipal Utility Tax lead day value has been revised to 36.02 days, which is comparable to the 40.11 day value most recently approved in Docket No. 13-0321. ComEd has not proposed restatement of its Energy Assistance Charge and Municipal Utility Tax payment lead values to offset for revenue collection lag days, in the manner proposed by Ameren.

Q. Is there another lead/lag issue from Docket No. 12-0293 that should also be reconsidered and changed?

A. Yes. At line 27 of Ameren Exhibit 1.3R, App 3, the Company has included "Income Taxes (Including Investment Tax Credit Adjustment)" in the amount of $63,097 (thousand) with an expense payment lead of negative 37.88 days. An equal annual amount of cash recovery for income taxes is embedded in total

"Revenues" at line 1 where it is assigned a Revenue Lag of 49.75 days. The net lag for these cash flows is therefore 11.87 days (49.75-37.88 days), which contributes $2.2 million to the Company's asserted Cash Working Capital Requirement.[14] However, Ameren is not presently paying income taxes and therefore has no cash outflows or CWC requirements associated with income taxes. Therefore, 2012 Income Tax expenses should be recognized to be completely <u>deferred</u> income tax expenses, which are non-cash expenses properly removed from the CWC calculations. App 3 line 8 should be modified with the caption, "(Less) Deferred Income Taxes" in the amount $63,097 to reduce the total revenues subject to the revenue lag day value, with a corresponding deletion of the line 27 Income Taxes amount of $63,097. AG Exhibit 1.3, page 2 shows these revisions in a different format, by eliminating both the revenue lag days and the expense lead days AIC has assigned to its deferred income tax expenses that should be recognized as non-cash expense amounts (and not allowed to overstate CWC).

Q. Has ComEd, in its formula rate case filings, including Docket No. 13-0318, more appropriately accounted for deferred income taxes as a non-cash expense that should not be allowed to overstate CWC?

A. Yes. At ComEd Ex. 3.18, App 3, that utility's lead lag study includes zero "Current State Income Tax" and negative "Current Federal Income Tax" in the calculation of

[14] 11.87 net lag days / 365 days in a year yields a Cash Working Capital Factor of .03252055. This factor, when applied to $63.1 million in income tax cash flows produces a $2.2 million CWC impact.

CWC, which has the effect of not increasing CWC when the utility is experiencing income tax loss carryforwards.

Q. Has the Commission addressed the treatment of deferred income taxes for ComEd and Ameren Illinois within prior rate orders?

A. Yes, but not consistently. As noted above, ComEd's recognition of negative currently payable income taxes due to ongoing tax losses provide a more appropriate accounting for tax losses than AIC's lumping together of currently payable with deferred income tax expenses. In its Final Order in Docket No. 12-0293 the Commission stated:

> The Commission notes that AG/AARP recommend that the Commission set the revenue lag days and the expense lead days at zero, since AIC's adjusted income taxes currently payable are negative. AG/AARP contend that since more than 100% of AIC's test year income taxes are actually non-cash deferred income taxes, there is no current period cash flow that could contribute to CWC. AG/AARP state that the approach it recommends was the method adopted by the Commission in Docket No. 11-0721. CUB also recommends that the Commission set the revenue lag and expense lead values to zero due to AIC's 2011 adjusted income taxes being substantially negative, asserting that this is consistent with Docket No. 11-0721.
>
> In response, AIC argues that in contrast to ComEd, AIC calculates income tax expenses based on statutory rates, while ComEd calculates its income tax expense based on actual rates. AIC asserts that as the two methodologies are not aligned, it would be inappropriate to impose the method in the ComEd docket on AIC.
>
> The Commission finds that AIC, as supported by Staff, has proposed the appropriate method in this docket for determining the appropriate income tax lead and lag. The Commission agrees that it has a long-standing practice of not considering current and deferred income taxes separately. The Commission finds no evidence has been presented in this proceeding to cause it to vary

> from this treatment. The Commission recognizes that a different result was adopted in the ComEd docket, Docket No. 11-0721; however, the Commission recognized in its Docket No. 12-0001 Order that ComEd and AIC calculate income taxes using different methodologies. The Commission reiterates that should those methodologies align in the future, or new evidence be presented, the Commission will re-visit this issue in future proceedings. [Order pages 45-46]

The Commission's quite different treatment of the same issue, for two similarly situations utilities within the same State, is not appropriate. The same Federal and State income tax laws and regulations as well as the same GAAP accounting requirements apply to both ComEd and AIC. Therefore, the CWC methods applied to income tax expenses for both utilities should also be the same.

Q. What evidence exists to show that AIC has no income taxes that are currently payable in 2012?

A. The Company's filing reflects this fact at AIC WP 3 REV, Page 9, lines 33-36 where "Deferred Taxes" exceed 100 percent of "Total Income Taxes."

Q. Did Ameren Illinois or its parent Ameren Corporation pay any federal income taxes for the 2012 tax year?

A. No. In fact, Ameren Illinois does not expect to pay any federal income taxes until after 2014, according to the following disclosures in the most recent Ameren Corporation SEC Form 10K:

> As of December 31, 2012, Ameren had approximately $605 million in federal income tax net operating loss carryforwards (Ameren Missouri - $175 million and Ameren Illinois - $175

> million) and $87 million in federal income tax credit carryforwards (Ameren Missouri - $11 million and Ameren Illinois - $- million). These carryforwards are expected to offset income tax liabilities for Ameren Missouri into 2014, and into 2015 for Ameren and Ameren Illinois, consistent with the tax allocation agreement.[15]

Because AIC is not paying income taxes, it cannot have any CWC investment associated with federal income tax expenses.

Q. How did AIC determine the 37.88 lead day value that Mr. Stafford has applied to Income Taxes at Ameren Exhibit 1.3R, App.3, line 27?

A. At the Company's WPB-8, pages 471 and 472, the proposed lead day values for federal income tax and state income tax are computed using statutory installment "Tax Due Date" information, rather than any actual payment data. This approach is entirely hypothetical for AIC, because the Company has not been paying income taxes and does not expect to pay income taxes in the period rate established in this Docket will be effective.

Q. Should AIC be allowed to include additional CWC in its rate base by inclusion of test year deferred income tax expenses, applying assumed hypothetical statutory payment dates to such non-cash expenses within the lead lag study?

A. No. Cash working capital should be calculated based upon consistently applied measurement of the timing of cash inflows and outflows. Deferred income taxes by definition are not paid out in cash, but instead are deferred for expected payment in

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[15] Ameren Corporation SEC 10K dated 3/01/13, page 73. Available at: http://phx.corporate-ir.net/phoenix.zhtml?c=91845&p=irol-sec-Illinois_Power_Company

future tax years. There can be no CWC requirement if there is no current-period cash transaction.

Q. Have you prepared an Exhibit to summarize the changes you are recommending to Ameren's CWC calculations?

A. Yes. AG Exhibit 1.3 at page 2 is a spreadsheet calculation that reformats and summarizes Ameren's lead/lag study (Ex. 1.3R, App.3), to show the line by line impact of each cost element included in the Company's lead/lag study. I have included the effect of each lead/lag day value that was approved for AIC by the Commission in Docket No. 12-0293 within this calculation and have also illustrated the impact of correcting the treatment of deferred income tax expenses as described herein. Lines 1 through 21 and columns (a) through (g) of this calculation replicate the Company's results on Ameren Ex. 1.3R App. 3, but combine the Revenue Lag and Expense Lead for each line item so as to show the overall CWC impact of each element of the analysis. This simplified presentation format is useful in isolating the CWC effects associated with the lead/lag study treatment of each category of transaction.

After this restatement of the Company's study, I present at columns (h) through (l), a side-by-side calculation showing each change I am proposing to illustrate the resulting differences in CWC. The cells in columns (h) and (i) are shaded where an AG/AARP change to study inputs has been made.

V. PUBLIC RELATIONS EXPENSES.

Q. Please describe the adjustment appearing at page 3 of AG Exhibit 1.3.

A. At page 335 of its 2012 FERC Form 1, AIC provided a breakdown of its 2012 "Public Relations Expenses" by payee that total about $905,000 prior to further apportionments between the electric and gas business.[16] The adjustment I propose would remove expenses that were incurred by AIC for the apparent purpose of corporate image enhancement and the promotion of goodwill. These expenses are not reasonable or necessary for the provision of utility services and should be excluded in setting rates.

Q. How did you determine the Public Relations expenses that should not be funded by utility ratepayers?

A. The adjustment I propose relies in part upon the Company's identification of activities and costs that it considered to be potentially comparable to costs disallowed by the Commission in Docket No. 12-0293, where the costs have not been removed by the Company in the calculation of AIC's asserted test year revenue requirement. Additionally, I have identified other Public Relations expenses within Account 930.2 in the 2012 test year that are also for the principal purpose of corporate image enhancement and that should not be part of the Company's revenue requirement.

[16] Sum of AIC 2012 FERC Form 1, page 335, lines 7-18.

Q. Why are public relations costs that are incurred by utilities for corporate image-building or goodwill enhancement not properly included in utility revenue requirements?

A. In addition to the fact that Section 9-225 of the Public Utilities Act identifies promotional, political, institutional or good-will advertising as expenses requiring a Commission finding for recovery, ratepayers should not be charged for public relations expenses that are entirely discretionary and not needed for the provision of utility services. This is particularly true when such activities and costs are incurred for the primary purpose of enhancing the public image of the corporation, building relationships in local communities or promoting the utility's views on public policy or political issues. If Ameren elects to incur costs in an effort to enhance its public image and reputation, these discretionary expenditures should not be included in the revenue requirement. Ameren has made no showing that these expenses are prudent, necessary or cost effective in meeting its public utility service obligation.

Q. Has the Commission recently found that advertising and public relations costs incurred by AIC that are primarily "promotional advertising" or "goodwill or institutional advertising" under Section 9-225 should not be included in the Company's formula revenue requirement?

A. Yes. For example, in the Final Order in Docket No. 12-0293, the Commission found that costs incurred by AIC for its "Focused Energy for Life" ("FEFL") advertising campaign, stating:

> Many of the work descriptions reinforce the notion that the FEFL campaign is a branding effort. For example, the work description

> provided for several of the invoices from Simantel reads, "Strategy and plan integration of promise into communication materials." (See AIC Ex. 24.3 at 1, 3-8, 10, and 11.) The "promise" referenced is AIC's promise to provide FEFL. Such a work description is indicative of FEFL being designed primarily to bring AIC's name before the general public in such a way as to improve the image of the utility. Other customer benefits and work descriptions on AIC Ex. 24.3 reference business retention, business cards for executives, customer surveys preceding new marketing, and updated policy posters for employees. How such expenditures constitute recoverable costs under Section 9-225 is unclear.
>
> Further indication of Ameren's corporate wide marketing efforts is discernible from AIC's September 19, 2012 motion seeking confidential treatment of certain marketing materials found in AG/AARP Ex. 3.4 and AG/AARP/AIC Cross Ex. 1. At paragraph 13 of the motion, AIC asserts that it competes with alternative retail electric suppliers ("ARES") in Illinois' deregulated power supply market, which in AIC's opinion warrants the confidential treatment of its marketing materials. What is interesting about this statement, however, is that AIC is a delivery services company and does not compete against ARES. What competitive interest of AIC would be harmed from disclosure of the marketing materials is not clear. But what this argument does indicate to the Commission is that the marketing effort AIC is concerned about and seeks to pass the costs of along to delivery service customers is actually a corporate wide effort to improve Ameren's name recognition and corporate image.
>
> Accordingly, the Commission finds that the position of Staff and CUB regarding FEFL expenses should be adopted. AIC and Ameren are free to undertake efforts to improve their image and brand, but they may not recover the costs of doing so from regulated AIC delivery service customers. [Order p.64]

The Commission also excluded consulting fees charged to AIC by Strategic International Group (“SIG”) because, “From the evidence at hand, the Commission cannot conclude that AIC's payments to SIG represent reasonable advertising expenses that should be recovered from customers. The SIG expenses do not seem appropriate for inclusion in Account 909, nor are they appropriate for recovery from delivery service customers under Section 9-225. Accordingly, Staff's adjustment on this issue is adopted."[17] The Commission also disallowed a listing of "P-Card" charges incurred by AIC for "jackets and other clothing for employees" and certain "booth decorations" and "athletic event tickets" that were challenged by Staff and also required AIC to, "…submit for approval its internal controls on P-Card usage within 45 days of the entry of this Order."[18]

Q. Has the Company continued to incur the same types of image enhancement expenses in the 2012 test year?

A. Yes. In its response to data request AG 2.11, the Company explained that, in its filing, certain adjustments were made to eliminate $57,000 for athletic/ticket events and certain E-store invoices, [19] "…based on the Commission's final orders in Docket Nos. 12-0001 and 12-0293." Then, after objecting to the AG's question, the Company also identified certain "potentially comparable" FEFL charges that were allocated to AIC from AMS for corporate communications services provided primarily by Simantel totaling about $104,000 and another $109,000 in Strategic International Group fees that were not adjusted and remain within the test year revenue requirement. Additionally, AIC's review of its P-Card spending revealed about $5,000 that the Company identified as costs to, "…support community

17 Final Order, page 65.
18 Id. pages 66-69.
19 The Company's adjustment is summarized at Ameren Ex. 1.4R, Workpaper 7 and in WPC-2.17.

outreach efforts, media contact and on-camera activities and booth presentations." I have included a copy of this data request response within AG Exhibit 1.5.

The adjustment at AG Exhibit 1.3, page 3 includes for disallowance, at lines 1 through 3, these three expense totals, based upon the Company's search for and identification of potentially comparable expenses for FEFL/Simantel , SIG group and P-Card expenses incurred in the test year.

Q. In addition to expenses that were viewed as comparable to the Commission's recent disallowances, did the Company incur additional Public Relations expenses in the test year for the primary apparent purpose of enhancing the public image of the Corporation, building relationships in local communities or promoting the utility's views on public policy or political issues?

A. Yes. Lines 5 through 20 of AG Exhibit 1.3 set forth certain other test year Public Relations expenses that AIC incurred and has included in its asserted revenue requirement. I have included these costs in the AG-proposed adjustment because they represent discretionary expenses not properly included in the Company's revenue requirement in the absence of a showing by AIC that such amounts are in the best interest of ratepayers and are prudent, reasonable and necessary for the provision of delivery services in Illinois.

Q. Please describe the Karen Foss Communications L.L.C. charges that appear at line 5 of AG Exhibit 1.3, page 3.

A. Karen Foss was a television anchorwoman on KSDK in St. Louis from 1979 until December of 2006 and served as Vice President for public relations for Ameren in

2007.[20] According to AIC's response to data request AG 2.12, Attachment 1, Ms. Foss' firm provided "communications consulting" including, "Media training for communicators on best practicies to share outage information with the media" and "Provided voice over services for company instructional videos." The Company has not identified any inability of its management to properly "share information with the media" and there is no reason why Ms. Foss' service was needed to provide voice over services for company instructional videos, which could easiliy have been done by Company employees at no additional cost. Therefore, lines 5 through 7 of AG Exhibit 1.3, page 3 eliminate these expenses from test-year revenue requirements.

Q. What services were provided by Obata Design, Inc., the Public Relations vendor listed at line 8 of AG Exhibit 1.3, page 3?

A. According to the Company's response to AG 2.12, Attachment 1, this vendor provided writing and photography services and, "Formatted for Corporate Social Responsibility Report for display on Ameren.com." This document and the related video is a summary of the Company's corporate values and aspirations and explains Ameren's position relative to environmental, regulatory, legislative and other public policy issues.[21] The costs incurred by the Company to produce and publish this report are not needed to provide utility services in Illinois and are for the apparent primary purpose of image enhancement and public policy positioning. Therefore,

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[20] See: http://en.wikipedia.org/wiki/Karen_Foss

[21] Available at: http://www.ameren.com/Sustainability/Documents/AmerenCorporateSocialResponsibilityReport.pdf

lines 8 through 10 of AG Exhibit 1.3, page 3 eliminate these expenses from test year revenue requirements.

Q. Why have you proposed to disallow the St. Louis Business Journal costs incurred by AIC in 2012, at lines 11 through 13 of AG Exhibit 1.3, page 3?

A. This charge is described in AG 2.12, Attachment 1, stating, "As sponsor, speaker and two conference attendees to 8th Annual Women's Conference." There is no utility business need to incur these discretionary expenses that are for the apparent purpose of enhancing the public image of Ameren Corporation through speeches and conference attendance.

Q. Please describe your proposed treatment of Simantel charges for Public Relations work totaling $743,635 that appears on lines 14 through 20 of AG Exhibit 1.3, page 3.

A. I have eliminated one half of the remaining[22] jurisdictional electric utility share of charges from this vendor that were recorded as Public Relations expense, pending more review and confirmation of the nature of work done for AIC by this vendor in relation to recorded electric expense amounts in the test year.

Simantel serves as Ameren's designated Agent of Record for advertising production and placement and provides communiciations support to the Company in communicating with customers and other constituencies across many areas including design and implementation, strategic planning, employee training, various corporate public relations projects including photo library, town hall meetings and annual report and meeting preparation.[23] In response to data request AG 2.12(d), which asked for copies of the proposals, contracts and invoices associated with the Simantel services that were reflected as Public Relations Expense at FERC Form 1, page 335, the Company provided voluminous and confidential copies of invoices from Simantel. However, the invoices, when combined with the Company's response to AG 2.12(f), provide little detail regarding how the Simantel charges on each invoice were distributed among Ameren entities including AIC or were further apportioned between electric and gas on AIC books. Additionally, because the Simantel work descriptions on the confidential invoices produced by AIC are somewhat general, data request AG 5.09 was submitted on June 17, 2013 asking the Company to provide "illustrative copies of specimen work products for each individually significant effort" with such documents identified to "correspond to the costs identified in AG 2.11, Attachment 1." At the time this testimony was prepared on July 2, 2013, the only response received for AG 5.09 stated, "AIC is in the process of compiling and reviewing the volumnous materials, vouchers and related work produce, including training videos, artwork, and reports. Once the materials have been reviewed for relevance, confidentiality and privilege, AIC will supplement the response to this request."

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[22] Remaining charges are the amounts paid to Simantel in addition to amounts believed to be potentially comparable to FEFL campaign activities.

[23] AIC response to AG 2.12, Attachment 1.

Q. Do the confidential Simantel invoices provide any general indication of the nature of the public relations work performed for AIC in 2012 that supports removal of such expenses from utility revenue requirements?

A. Yes. Simantel invoice documentation within AG 2.12, confidential Attachment 4.1, uses the following terms to describe some of the discretionary work that was done for AIC. These descriptions, while vague, suggest that significant portions of Simantel's work in 2012 was not necessary for the provision of regulated electric delivery service and was motivated primarily by a goal of enhancing the public image and reputation of Ameren:

- 2012 Town Hall Presentations (Att. 4.1, pages 10-14)
- Mission, vision and values posters for General Office (pages 15, 19, 36-38)
- Environmental conditioning concept development (pages 17,18, 20)
- Developing Point of View Reports (page 25-29)
- Community Connections Volunteer Strategy (page 30)
- Internal Training Messages – Corporate Positioning (page 34-35)
- Online Reputation Management Plan (page 39)

Similarly discretionary and non-essential work by Simantel was described very generally in confidential invoices included in AG 2.12, Attachment 4.2 with the following terminology:

- Diversity Department Banner Development (Att. 4.2, pages 1-2)
- Design Ameren Volunteer T-shirts (page 16)
- Design President's Performance Leadership Award mark/patch (page 17-18)

- Washington University clean coal research/report (page 32-33)
- Design Methane to Megawatts TV message (page 35)
- Develop Ameren Christmas Card (page 37)

I have included copies of the AIC responses to AG 2.11 and 2.12, excluding the more voluminous and confidential attachments, within AG Exhibit 1.5.

Q. Please describe in more detail the adjustment to Strategic International Group ("SIG") fees that appears at line 2 of AG Exhibit 1.3, page 3.

A. In response to AG 2.11(d), AIC stated that "Strategic International Group fees of $109,080 were included in the test year revenue requirements as a part of Account 909. Monthly meetings with AIC were held to plan work schedules and review progress. These expenses were not removed and included consulting and management services specific to AIC in the area of community and customers relations." In the confidential response to data request BAP 8.01, Attachment 1, pages 7 and 8, the "Scope of Work Number " for SIG was described as, "Scope of Project from March 1, 2011 to February 29, 2012, Strategic International Group will provide consulting and management services specific to issues facing the Client in the areas of government relations and issues management, it is expressly understood that the Services under this contract shall not include any lobbying activities as defined by local, state and federal laws." For these services, Ameren agreed to compensate SIG $15,000 per month for the duration of this Agreement.

When asked in data request AG 5.11 to provide "[c]opies of illustrative work products for each of this vendor's individually significant efforts in 2012…"

the Company produced no documents and stated, "Regular meetings were held to discuss ongoing customer communications in areas of community and customer relations and issue management. No written work products were developed. Meeting notes were not taken." In the absence of any documentation to support the reasonableness of these costs, they are removed in the AG-proposed adjustment. A copy of the Company's response to AG 5.11 is also contained within AG Exhibit 1.5.

VI. CONSTRUCTION WORK IN PROGRESS.

Q. What is the purpose of the adjustment you proposed at AG Exhibit 1.3, page 4?

A. Ameren has proposed rate base inclusion for certain construction projects that were included in its per books balance of Construction Work in Progress ("CWIP") because such projects were not earning AFUDC as of December 31, 2013. These projects are listed at Ameren Ex. 1.4R at Workpaper 15, with a total cost of $604,097 being proposed for rate base inclusion. The Company has identified certain outstanding Accounts Payable vendor charges related to several of the listed projects, in the amounts set forth at line 1 of AG Exhibit 1.3, page 4. The existence of these Accounts Payable balances means that vendors rather than shareholders have funded a portion of these CWIP investments as of year-end. To recognize this non-shareholder funding for CWIP, I have quantified the adjustment needed to reduce Ameren's asserted rate base for CWIP that is not subject to AFUDC and that has not been funded by AIC investors because of vendor-supplied financing.

Q. How did you determine which of AIC's CWIP projects were funded by Accounts Payable?

A. In its response to AG 5.01, Attachment 1, the Company provided the necessary information to quantify this adjustment. I have included a copy of this response in AG Exhibit 1.6.

Q. Is your adjustment to recognize Accounts Payable Related to CWIP identical in concept to the treatment afforded another element of AIC's asserted rate base?

A. Yes. At Schedule B-8.1, the Company reduces its average per books General Materials and Supplies Balances for the estimated amount of "related accounts payable" associated with such balances. This has the effect of ensuring that ratepayers are not forced to pay a rate base return on Materials and Supplies investments that are actually supported by unpaid vendors' account payable balances, rather than utility investor-supplied capital.

Q. Has the Commission previously concluded that CWIP allowed into rate base should be reduced to account for related Accounts Payable balances?

A. Yes. In its order in AIC Docket No. 12-0001, the Commission stated:

> First, the Commission agrees that Staff's original adjustment to remove projects duplicated in projected plant and CWIP not subject to AFUDC is reasonable and is adopted by the Commission. Next, the Commission agrees with Staff and AG/AARP that the additional adjustment to remove Accounts Payable associated with the remaining project included in CWIP not subject to AFUDC is necessary since

> such vendor financing is not a shareholder cost that needs a rate base return. This conclusion is also consistent with the Commission's treatment of a similar issue in Docket No. 11-0721. [Final Order p. 73]

Q. Is your adjustment to CWIP consistent with the Commission's conclusions quoted above?

A. Yes. A utility's investment in CWIP is recorded on an accrual basis at the end of each month, even though part of the month end balance includes expected charges from vendors to the project that have not yet been paid by AIC. As noted by the Commission, "such vendor financing is not a shareholder cost that needs a rate base return."

Q. Has AIC made both of the two adjustments to CWIP that were approved by the Commission in Docket Nos. 12-0001 and 12-0293?

A. No. According to Mr. Stafford's direct testimony, "The amount of CWIP included in rate base has been adjusted to remove amounts included in the Company's 2013 projected plant additions, but has not been adjusted to remove the accounts payable portion of such CWIP at year-end, due to the time lag between investment by the Company, and reimbursement of such costs in rates."[24]

Q. Do you agree with Mr. Stafford that the "time lag between investment by the Company and reimbursement of such costs in rates" justifies ignoring the payables associated with CWIP?

A. No. The projects included in CWIP are not being "reimbursed in rates", but rather an allowance for AIC's ongoing investment in CWIP that cannot earn AFUDC is

[24] Ameren Ex. 1.0, page 22, lines 448-452.

being allowed to earn a return continuously through approved rate levels. The listing of discrete CWIP projects that do not earn AFUDC is constantly changing and continuously creates new additions to Plant in Service as each new project is completed and placed into service. The formula ratemaking process under EIMA provides an allowance for projected net additions to Plant in Service and then a full reconciliation to ensure that such added plant is afforded the allowed return. Mr. Stafford's argument that some "time lag" exists with regard to CWIP ignores the effect of the formula ratemaking process and does not support ignoring the accounts payable that are associated with the Company's non-AFUDC eligible CWIP projects.

VII. CONCLUSION AND RECOMMENDATION.

Q. What is your recommendation regarding the initial revenue requirement to be determined for Ameren in this Docket?

A. I recommend that AIC's delivery service revenue requirement be adjusted to reflect the recommended changes described in my testimony. This amount should be further modified for any Commission-approved ratemaking adjustments proposed by the Staff and other parties, that are not addressed in my or Mr. Effron's Direct Testimony.

Q. Does this conclude your testimony at this time?

A. Yes.